

**Thursday, May 26, 2005**  
**Committee on Government Reform**  
**Federal Student Loan Programs**

**TESTIMONY OF DR. ALAN G. MERTEN**  
**PRESIDENT, GEORGE MASON UNIVERSITY**

Good morning. I am Alan G. Merten, President of George Mason University. George Mason University is a four-year public institution located in Northern Virginia. George Mason has gained national distinction in a range of academic fields, including public policy, information technology, economics, the fine and performing arts, law, conflict resolution, and the biosciences.

With approximately 29,000 students, Mason is the largest state university in Virginia. Our students are studying in 149 degree programs at the undergraduate, graduate, and professional levels. As a state institution, our mission is to provide excellent educational opportunities to our students, while maintaining high quality and affordable access. Twenty-five percent of freshmen are the first in their families to attend college.

Universities currently have a choice between two processes for facilitating federal lending to students and their parents. Under the Federal Family Education Loan Program (FFELP), families choose the financial institution from which they borrow. In contrast, under the Federal Direct Loan Program, funds are transferred directly from the Direct Loan Servicing Center to the university. Mason has experience with both processes. Therefore, I feel we have a unique viewpoint to

share since we left FFELP to become a Direct Lending school in 1995 and returned to FFELP in 2004.

The federal student and parent loan programs are critical to our ability to provide affordable access to higher education. Approximately one-third of our students benefit from the federal student and parent loan programs. The federal loan programs constituted \$60 million of the overall \$99 million aid awarded to our students this year, which is consistent with the national average of 59%. George Mason has a \$500 million annual operating budget, of which \$141 million comes from tuition revenue, so federal loans account for over 40% of tuition revenue.

At Mason, approximately 3,500 students receive a Federal Pell Grant, while over 10,000 students receive some type of federal loan. Federal loan borrowing at Mason has increased 50% in the last five years from \$40 to \$60 million a year. While part of this increase is due to our growing student population, the increase also reflects an increase in need among our students. Sixty percent of our financial aid applicants are from families with incomes of less than \$50,000.

The university takes pride in the sense of responsibility our students have demonstrated. Mason's cohort default rate (percentage of students that do not repay) is very low -- 2% for FY 2002 which is less than half of the national average of 5.2 percent. In addition, our Office of Student Financial Aid has received a Model of Quality award from the Quality Assurance program of the U.S. Department of Education.

## **Federal Family Education Programs and Federal Direct Lending**

In the 1995-1996 academic year, Mason joined about 1,200 other institutions to become a “Direct Lending” school. This decision was made after an extensive review of this new lending option for our loan borrowers. Our participation in the U.S. Department of Education’s Quality Assurance Program gave us an added edge since we were already accustomed to reviewing processes.

The major variable that made the change to Direct Lending an obvious choice for us was the inefficiency of the FFELP process at that time. Under FFELP, our students were borrowing from hundreds of different lenders and guarantee agencies, and although we had electronic funds transfer (EFT) with the Virginia lenders, all of the other lenders used paper checks, mailed to the Student Accounts office. Student Accounts would have to contact the student, and then the student had to go to their office to endorse the check before the student would receive the funds toward their tuition charges. When the loan funds were for the parent, checks were mailed to parents for endorsement, who then had to return the checks to Mason. Because of multiple loan servicers, the effort and cost spent investigating loan status or even determining where a check had been delivered was very high. This processing was time consuming and frustrating for students who were in dire need of the funds.

Direct Lending eliminated most of the paper processing. All direct loan funds were electronically released to Mason, and the aid office was able to respond quickly to students’ requests for the status of their loans. This was a major improvement over FFELP. However, over the eight years that we were a direct

lending school, many changes occurred in the FFELP banking community, which made the banks more competitive.

The FFELP community was also involved in increasing the efficiency of federal loan funds delivery. Schools can now easily work with multiple lenders and even multiple guarantee agencies and still deliver federal loan funds in a timely manner to their students. Additionally, technological improvements and data systems, spearheaded by the efforts of the Department of Education was paramount in creating a more streamlined electronic processing of federal aid funds.

Mason again began a cross campus review of its participation in direct lending in 1999/2000. We utilized students, parents, University Life staff and Enrollment Services offices to again review our loan program and to determine if we should remain with Direct Lending. Much of this review was initiated because many of our students and parents wanted to borrow from private lenders, and there were also increasing complaints about the level of customer service received from the Direct Loan Servicing Center. Private lending institutions also offered other incentives and borrower benefits that the direct loan program could not equal. While Direct Loans did offer an up front loan fee rebate in anticipation of future timely payments, that single benefit did not come close to some of the borrower benefits that were being offered through private lenders.

Students and their parents increasingly could receive reduced origination fees and reduced interest rates from the private lenders after they began their loan repayment. For example, Mason has a large number of Navy personnel and their families, who are members of Navy Federal Credit Union, which offers 1%-2% fee

reductions on the front and back end of loan processing for its members. These benefits are not available through the direct lending program.

At the same time, the issues that drove our move to direct lending in 1994 were becoming less important, or had been resolved by the FFELP community. The issue about the paper processing of checks is still a concern, but otherwise, the differences in the two loan programs did not offer an overwhelming reason to remain a direct lending school. Additionally, FFELP had a larger customer service area, more default aversion options and web-based servicing access available to the school as well as the borrower.

Effective with the 2004-2005 academic year, we left the Direct Loan program and returned to FFELP. The guarantor and the servicing center worked closely with our financial aid office to ensure a smooth transition back to FFELP. Like our previous arrangement with the Direct Lending Loan Servicing Center, we have one point of contact at both the guarantee agency and the servicing center to address any system issues. Our aid office has the electronic access to view and resolve any issues with the servicer, and FFELP allows for more staff members to gain access to the student loan information which was previously limited to only a few staff members in the direct loan environment.

Our students and parents who are federal loan borrowers are happy with the changes and benefits that have become available because of our return to FFELP. They much appreciate the fact that they are given a choice in lending institutions. Although it would still be administratively easier to have one servicer, the benefits to our students and parents were the deciding factor in choosing to utilize private lenders over the ease of processing of direct lending for our financial aid staff.

There continues to be new benefits to our students from FFELP in addition to the federal loan repayment/discharge options. For example, effective the 2005-2006 academic year, through the work of Governor Warner, the Virginia General Assembly, NellieMae and SallieMae, the newly established “Teach for Virginia” and “Care for Virginia” loan programs will grant added benefits to teachers and nurses who stay in Virginia and are employed in the nursing or teaching professions. The students will be granted a 10% cash back in addition to any other borrower benefits they have been granted after making 36 regular payments on their federal student loans. These programs have confirmed our decision to return to FFELP.

## **Conclusion**

The competition among the private lenders has provided savings and other benefits to parents and students that Direct Lending cannot match. Improvements in processing loans through the FFELP system have decreased the administrative burden that existed in the 1990’s. We believe that the overall benefit to families justifies the remaining additional administrative costs of having more than one servicer under FFELP.

Finally, while we are excited about providing options to our students and parents, the sources of money have become increasingly limited when it comes to assisting students in financing their post-secondary education. We rely heavily on the state and federal government financial aid funds. The reductions in the Federal Campus Based Programs and the elimination of the Federal Perkins Loan Program are of great concern to us as they relate to the options that students will have in the future. Our country’s college student population is going to increase, and so the overall

costs of education. As more and more students are entering post-secondary education, the idea that available funds are dwindling for our students is very troubling. As it is, our students have been limited in what is available to them and we have seen a 10% increase, in the last year alone, of students having to take out private educational loans in addition to their federal loans. I encourage you to do all you can to provide programs and funding that encourages our youth to live the dream of higher education – for their good and the good of our future.